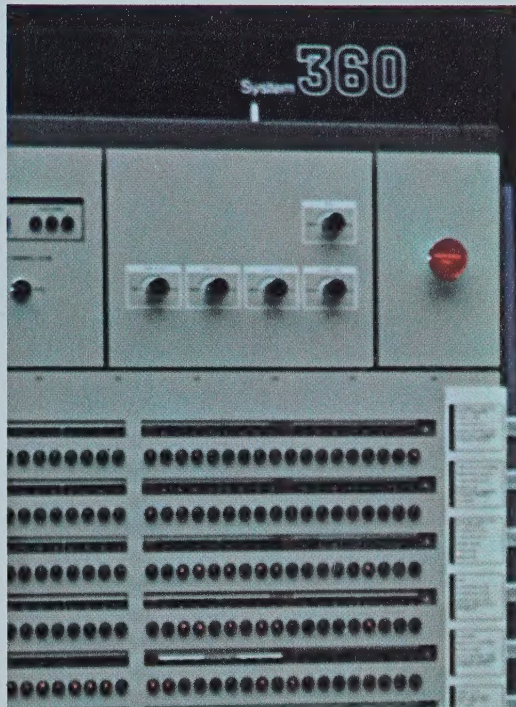


BANISTER CONTINENTAL CORPORATION
1971 ANNUAL REPORT

BANISTER CONTINENTAL CORPORATION

BOARD OF DIRECTORS

Ronald K. Banister, *Chairman*
A. John Cressey
Richard A. Fisher
Sidney J. Silberman
Herbert S. Glick

OFFICERS

Ronald K. Banister, *President*
A. John Cressey, *Vice President*
Richard A. Fisher, *Vice President and Treasurer*
Sidney J. Silberman, *Secretary*
Ronald E. Strom, *Assistant Secretary*

EXECUTIVE OFFICES

9001 Bloomington Freeway
Minneapolis, Minnesota 55420

SUBSIDIARIES

BANISTER PIPELINES LTD.
BANISTER PIPELINES, INC.
Edmonton, Alberta, Canada

O. Johanson, *President*
R. D. Meeres, *Vice President-Administration*
G. R. Caron, *Vice President-Construction*
A. D. Munro, *Vice President-Equipment and Purchasing*
H. W. Laslop, *Vice President and Controller*
K. H. Lambert, *Secretary*

CONTINENTAL COMPUTER ASSOCIATES (N.Y.) INC.
Wyncote, Pennsylvania

M. G. Wolpert, *President*
J. C. Osborne, *Executive Vice President and Secretary*
S. L. Carr, *Vice President-Marketing*
C. W. Weiss, *Vice President-Administration*
R. A. Fisher, *Treasurer*

REGISTRARS AND TRANSFER AGENTS

First National City Bank
111 Wall Street
New York, New York 10022

Bank of the Commonwealth
719 Griswold
Detroit, Michigan 48231

DEBENTURE TRUSTEE

Marine Midland Bank — New York
140 Broadway
New York, New York 10015

INDEPENDENT ACCOUNTANTS

Price Waterhouse & Co.
Independence Mall West
Philadelphia, Pennsylvania 19106

ON THE COVER:

Combined with a picture of Banister's expertise in laying pipelines in the North is a closeup of one of the IBM System/360 computers which make up the Continental Computer Associates, Inc., lease portfolio, and an intimate view of System/360 memory core.

CONTENTS

Officers-Directors .... Inside Front Cover

Highlights 1

President's Letter 2

Statement of Income and
Retained Earnings 3

Consolidated Balance Sheet 6

Statement of Changes in
Consolidated Financial Position 8-9

Notes to Financial Statements 9

Accountants' Opinion 14

Five Year Summary
of Operations .... Inside Back Cover

BANISTER CONTINENTAL CORPORATION
ANNUAL REPORT FOR THE YEAR
ENDED MARCH 31, 1971

FINANCIAL HIGHLIGHTS

	($000 Omitted) Years ended March 31	
	1971	1970
Gross Revenue	$25,005	$26,193
Net Income	$ 1,253	$ 1,005
Per Common and Common Equivalent Share	$ .49	$ .41
Per Common Share — Fully Diluted	$ .43	$ .36
Depreciation	$ 3,623	$ 3,403
Average Common Shares Outstanding	2,411	2,290
Shareholders' Equity	$17,309	$15,003
Cash and Temporary Investments	$12,385	$ 8,650
Total Assets	$48,272	$49,372

"Black Gold Harvest", one of a series of paintings on pipelining commissioned by Banister Pipelines Ltd.

TO OUR SHAREHOLDERS:

I am pleased to report that net income for the year ended March 31, 1971, increased 25% over the preceding year, reaching $1,253,000, compared with $1,005,000 for the earlier period.

This amounts to earnings of $.49 per common and common equivalent share compared with $.41 a year earlier. Assuming full dilution, earnings per share were $.43 compared with 1970's $.36. Average shares outstanding during the period increased to 2,411,000 from 2,290,000 for the preceding year.

Revenues for fiscal 1971 amounted to $25,005,000, down about 5% from the $26,193,000 reported for fiscal 1970. As reported earlier, the current year's revenues included $367,000 (equal to $175,000 after taxes) which was received during the third quarter as additional compensation for work on a pipeline contract completed during the preceding year. This kind of revenue item is not unusual in the pipeline construction business; because of unforseeable factors, claims frequently arise and are settled upon job completion by the management of both sides.

COMPUTER LEASING

Our computer leasing subsidiary, Continental Computer Associates (N.Y.), Inc., had a good year, generating revenues sufficient to retire approximately $4 million in long-term debt without additional financing. Pre-tax revenues increased 31%, although net after tax profits were up only 7% because our effective income tax rate increased from 34% to 46% as investment tax credits declined.

The long-awaited announcement by IBM of a so-called fourth generation computer line occurred during the year with the introduction of the System/370. This new line of computers is considerably more powerful and sophisticated than the 360 line but it represents an evolutionary rather than a revolutionary change in computer design. Significantly, the computer language used by the 370 is compatible with the System/360. This means that 360 users can still develop extensive programs without the fear of a costly reprogramming job if future computer requirements call for the sophistication of a 370 system.

In general, the apparent aim of IBM's marketing strategy is to assure a long and useful life for the System/360, which is understandable in view of IBM's large rental pool. Therefore, we believe that our inventory of System/360 computers, renting at rates below those of IBM, will continue to generate satisfactory revenues for some years to come. For example, despite the uncertainties that occur pending the announcement of a new computer line, and despite the slowness of the economy, approximately 98% of our computer portfolio remained on lease throughout the year.

One area of concern is peripheral equipment where intense competition between IBM and various independent manufacturers has caused price reductions. This has given us some problems with certain disc drive units and related control equipment, but fortunately our exposure in this area is modest.

Looking ahead, we expect to have a higher percentage of our equipment off-lease, but declining interest charges due to significant debt repayments should enable us to make additional gains in income in the coming year.

PIPELINE CONSTRUCTION

The year was generally not a good one for the pipeline construction business in either Canada or the United States. Lengthy delays in determining how much gas and oil would be exported from Canada to the United States, and the uncertainties over the development and transportation of Alaskan oil and gas, were the principal factors. As a result, our industry was plagued by over-capacity and idle equipment.

In view of this, we are exceptionally pleased with

Banister machinery wrapping a 42-inch gas pipeline, just prior to installation in Canada.

the revenues and profits shown by our pipeline construction subsidiaries. Although construction revenues were lower than those of a year ago, net profits were higher.

TransCanada PipeLines Limited awarded Banister Pipelines Ltd. a contract, valued at approximately $10 million, to construct 77 miles of gas pipeline in Manitoba and Ontario by November 1, 1971. In addition, Banister received a contract subject to certain contingencies to construct 186 miles of pipeline for TransCanada's 1972 construction program. Completion of this phase is scheduled for September 1, 1972.

CONSTRUCTION POTENTIAL GOOD

The growing energy requirements of Canada and the United States, coupled with the dwindling supply of gas and oil in the lower 48 states, suggests considerable potential for the development of energy resources in Northern Canada and Alaska.

Because pipelines offer the safest and most economical means to bring these supplies to market, the outlook for the pipeline construction industry in the North should be good over the next five to ten years. A gallon of oil, for example, can be moved from Edmonton to Chicago at less than one-fourth the cost of mailing a letter — and still produce a profit.

An IBM 2314 direct access storage facility of the type leased by Continental Computer Associates, Inc., for use with its portfolio of IBM System/360 computers.

Construction of pipelines in the North, however, presents a stiff challenge. The environment is severe on men and equipment, and the ecology of the area is fragile and could be damaged by careless construction methods. These factors, combined with high capital costs, have limited the number of companies with actual northern construction experience.

Banister, on the other hand, is well qualified to handle this work. We have more experience in the North than any other pipeline construction contractor and have built the northern test facilities designed for research into the ecological and environmental problems of pipeline operations in northern permafrost regions.

THE NORTH SLOPE

At this writing it appears that the oil pipeline from Prudhoe Bay, on Alaska's North Slope, to the south Alaskan port of Valdez, will not receive the necessary clearances from the U.S. Interior Department and other governmental bodies in time to permit a construction start in 1971. We are hopeful, however, that the line will be built eventually.

Serious consideration is also being given to a pipeline route from Prudhoe Bay up the Mackenzie River through the Northwest Territories and on to Edmonton. If the oil reserves on the North Slope are as great as anticipated, both lines may be needed within the decade although we believe that the line to Valdez would be built first.

The Canadian route, however, stands a good chance of being the choice for a gas pipeline tapping the estimated 26 trillion cubic feet of natural gas contained in Alaska's North Slope. Within a year after the oil line gets underway this line could be started to meet the critical shortage of gas in the lower 48 states.

There are, of course, many problems to overcome but progress is being made. For one thing, the Nixon Administration has proposed a plan which may settle the very complicated Alaskan Native Land Claim Issue. For another, a great deal of on-site research has been done on the environmental effects of building gas and oil lines in the permafrost regions. This research indicates that Arctic pipelines can be designed and built without materially affecting the ecology.

Despite the claims of many critics, the oil that this line would make available to the United States is desperately needed, especially considering that it will be three to four years before oil could start flowing even if the line were to be started immediately.

There can be no dispute as to the need to protect

the delicate Arctic environment, but it is clear that some of the opposition to the line is based on incomplete knowledge and emotional response.

CORPORATE LITIGATION

In the last quarter of fiscal 1971, we received $1,500,000 from the out-of-court settlement of a lawsuit.

This suit involved excess costs incurred in 1968 in the performance of a major contract by one of our pipeline construction subsidiaries just prior to its purchase by Continental Computer Associates, Inc. In our opinion, the settlement was an amicable one and we believe we have retained the goodwill of our customer. As indicated in Note 4 to our financial statements, the proceeds, less related expenses, were not reflected in earnings, but reduced the "excess of cost over net assets at acquisition" recorded on our balance sheet at the time of acquisition of the Banister Companies.

RETIREMENT OF CONVERTIBLE ISSUE

Our balance sheet was strengthened by calling the outstanding issue of 6¼% Convertible Junior Subordinated Debentures due 1987. This issue, which originally amounted to $5,250,000, had been reduced to $1,503,500 as a result of prior conversions into common stock at $8 per share. All but $78,000 of these remaining Debentures were converted by the call date, April 12, 1971, thus increasing our equity position by $1,425,500 and our number of outstanding shares by 178,024. We have regularly assumed full dilution in our earnings reports to give effect to these shares. The effect of this action as of March 31, 1971, is reflected in Note 2 to our financial statements.

NORTHWEST DIVISION ACQUISITION

As we have also reported during the year, the Company is one of nine applicants in proceedings before the United States District Court for the District of Colorado to acquire the Northwest Division properties of El Paso Natural Gas Company, which were formerly known as the Pacific Northwest Pipeline Corporation. Consisting primarily of a natural gas transmission system handling one billion cubic feet of gas per day, this system serves points in Colorado, Utah, Wyoming, Idaho, Washington and Oregon. It extends from the San Juan Basin in New Mexico to the Canadian border.

After its acquisition of Pacific Northwest, El Paso was named in an antitrust suit filed by the U.S. Department of Justice in 1957, and was subsequently ordered to divest itself of the pipeline, plant, gas reserves, transmission facilities and other related assets. In 1968, the District Court awarded the system to Colorado Interstate Gas Company but in June, 1969, the United States Supreme Court reversed the lower court's decree and ordered new divestiture proceedings. In the fall of 1970, hearings resumed and we filed, as a new applicant, to acquire this system.

We are making a determined effort to acquire this system since we believe that it has good growth potential and will give us a substantial base to build for the future. If the court determines that we are the successful applicant, a major financing program, including additional equity financing for which we would seek stockholder approval, would be necessary.

TWO DIRECTORS RESIGN

It was with regret that we accepted during the year the resignations of two of our directors, Raphael Bernstein, a partner, and Carleton A. Holstrom, a vice president, of Bear Stearns & Co., Investment Bankers. Both men served the company with distinction, and resigned in the belief that they would be in an even better position to serve the company as independent investment bankers and financial advisers, particularly in connection with our efforts to acquire the Northwest Division.

We do not intend to fill these vacancies until we know the outcome of the El Paso divestiture hearings.

A LOOK AHEAD

The future appears to be promising. The computer leasing portfolio should be generating net cash after debt repayments, and in the pipeline construction area we have a considerable backlog. On this basis we feel that in the current year the company should show a revenue increase and, barring abnormal weather conditions or other unforeseen circumstances, we would also expect an attendant increase in earnings.

R. K. Banister

June 10, 1971

R. K. Banister
President and Chairman

BANISTER CONTINENTAL CORPORATION

STATEMENT OF CONSOLIDATED INCOME AND RETAINED EARNINGS

	Year ended March 31 1971	1970
Revenues (Notes 1 and 11)		
Operating — pipeline construction and computer rentals	$24,333,000	$25,575,000
Other	672,000	618,000
	25,005,000	26,193,000
Expenses		
Operating	14,766,000	16,357,000
Depreciation (Note 1)	3,623,000	3,403,000
Interest and amortization of deferred charges (Note 3)	2,239,000	2,809,000
Selling, administrative and general	1,933,000	1,770,000
	22,561,000	24,339,000
Income before taxes	2,444,000	1,854,000
Provision for taxes on income (Note 5)		
Deferred	904,000	554,000
Current	287,000	295,000
	1,191,000	849,000
Net income	1,253,000	1,005,000
Retained earnings at beginning of year	1,551,000	602,000
Dividends on prior preferred stock	(56,000)	(56,000)
Retained earnings at end of year (Note 2)	$ 2,748,000	$ 1,551,000
Earnings per share (Note 10)		
Common and common equivalent	$ .49	$ .41
Common assuming full dilution	$ .43	$ .36

The accompanying notes are an integral part of these financial statements.

BANISTER CONTINENTAL CORPORATION

CONSOLIDATED BALANCE SHEET

	March 31 1971	March 31 1970
Assets		
Current assets		
Cash and temporary investments, at cost (Note 2)	$12,385,000	$ 8,650,000
Accounts receivable and accrued interest (Note 2)	3,056,000	3,995,000
Other current assets	477,000	467,000
Total current assets	15,918,000	13,112,000
Equipment and fixed assets at cost less accumulated depreciation (Notes 1 and 2)	25,898,000	27,805,000
Cash deposits — compensating balances (Note 2)	684,000	1,249,000
Deferred charges less accumulated amortization (Note 3)	636,000	806,000
Loans to officers	250,000	250,000
Excess of cost over net assets at acquisition (Notes 4, 5 and 11)	4,854,000	6,110,000
Other assets	32,000	40,000
	$48,272,000	$49,372,000

The accompanying notes are an integral part of these financial statements.

	March 31	
	1971	1970
Liabilities and Shareholders' Equity		
Current liabilities		
Current installments of long-term notes payable and subordinated debentures (Note 2)	$ 3,487,000	$ 4,317,000
Accounts payable and accrued liabilities	2,547,000	1,984,000
Estimated taxes on income	242,000	11,000
Deferred income taxes (Note 5)	293,000	443,000
Total current liabilities	6,569,000	6,755,000
Long-term notes payable (Notes 2 and 11)	8,753,000	12,035,000
Subordinated debentures convertible into common stock (Notes 2 and 8)	14,185,000	15,261,000
Unrealized gain on foreign exchange (Note 1)	210,000	—
Deferred income taxes (Note 5)	1,246,000	318,000
	30,963,000	34,369,000
Shareholders' equity (Notes 2 and 6 through 9)		
Convertible prior preferred stock, $100 par value, authorized and outstanding 7,500 shares	750,000	750,000
Common stock, no par or stated value, authorized 5,000,000 shares; (issued 2,583,157 shares — 1971, 2,411,520 shares — 1970)	13,816,000	12,708,000
Retained earnings	2,748,000	1,551,000
	17,314,000	15,009,000
Less cost of common shares held in treasury (52,750 shares in 1971 and 57,000 shares in 1970)	5,000	6,000
	17,309,000	15,003,000
	$48,272,000	$49,372,000

Commitments and contingencies (Note 11)

The accompanying notes are an integral part of these financial statements.

BANISTER CONTINENTAL CORPORATION

STATEMENT OF CHANGES IN CONSOLIDATED FINANCIAL POSITION

	Year ended March 31	
FUNDS PROVIDED BY:	1971	1970
Operations		
Net Income	$1,253,000	$ 1,005,000
Add expenses not requiring outlay of working capital in the current period		
Depreciation and amortization	3,764,000	3,593,000
Utilization of predecessor company tax loss carryforwards	173,000	83,000
Deferred income taxes — noncurrent portion	928,000	103,000
Deduct gain on sale of equipment	(33,000)	(10,000)
Working capital provided from operations for the current period	6,085,000	4,774,000
Proceeds from sale of equipment	284,000	243,000
Proceeds from sale of 6½% subordinated debentures — net	—	14,450,000
Issuance of common stock upon conversion of subordinated debentures — net	957,000	4,284,000
Proceeds from exercise of stock options	151,000	8,000
Net proceeds from settlement of predecessor company construction contract	1,076,000	—
Unrealized foreign exchange gain	210,000	—
	$8,763,000	$23,759,000
FUNDS USED FOR:		
Additions to equipment	$1,924,000	$ 2,649,000
Reduction in long-term notes payable and subordinated debentures — net of reduction of compensating balances	2,795,000	8,040,000
Conversion of subordinated debentures into common stock — net	957,000	4,284,000
Cash dividends on prior preferred stock	56,000	56,000
Other — net	39,000	(28,000)
Increase in working capital	2,992,000	8,758,000
	$8,763,000	$23,759,000

STATEMENT OF CHANGES IN CONSOLIDATED FINANCIAL POSITION (continued)

INCREASES (DECREASES) IN COMPONENTS OF WORKING CAPITAL WERE:	Year ended March 31 1971	1970
Cash in temporary investments	$3,735,000	$ 6,843,000
Other current assets	(929,000)	54,000
Short term notes payable	—	2,207,000
Current installments of long-term notes payable and subordinated debentures	830,000	(1,135,000)
Accounts payable, accrued liabilities and estimated taxes on incomes	(794,000)	1,232,000
Deferred income taxes relating to current assets	150,000	(443,000)
Total	$2,992,000	$ 8,758,000

The accompanying notes are an integral part of these financial statements.

BANISTER CONTINENTAL CORPORATION
Notes to Consolidated Financial Statements

Note 1 — Accounting policies

The consolidated statements include the accounts of the company and its subsidiaries, all of which are wholly owned. For the year ended March 31, 1971, the accounts of the Canadian pipeline subsidiary have been translated into United States dollars as follows:

Current assets and liabilities — at the exchange rate in effect at March 31, 1971 ($1.00 Canadian = $.99 United States).

Noncurrent assets and liabilities — at the exchange rate prevailing at the date of the transaction.

Revenue and expense — at the average rates in effect during the year except for depreciation which has been translated at the rates pertaining to the related fixed assets.

For the year ended March 31, 1970, the accounts were translated on the basis of $1.00 Canadian = $.93 United States. There was no significant variation in this rate during the year.

During the year ended March 31, 1971, the Canadian government eliminated the official exchange rate between United States and Canadian dollars. An unrealized gain of $210,000 in translation of the Canadian accounts into United States dollars has occurred as a result of an increase in the exchange rate. This gain has been included in the consolidated balance sheet as a deferred credit pending ultimate policy decisions on the exchange rate by the Canadian government.

Revenues on pipeline contracts are reflected in income on the basis of the percentage of completion of individual contracts. Construction equipment is depreciated on a straight-line basis at rates ranging from 10% to 50% after recognition of a 30% salvage value.

Leasing operations are accounted for under the operating method. Under this method, lease rental payments are recognized as income in the periods in which they are receivable and the cost of the respective equipment is depreciated on a straight-line basis over a ten-year life after recognition of a 10% salvage value on all equipment.

Equipment and related accumulated depreciation are as follows:

	March 31, 1971	1970
Construction equipment	$ 5,389,000	$ 4,852,000
Data processing equipment	29,667,000	29,129,000
Other	895,000	368,000
	35,951,000	34,349,000
Less accumulated depreciation	10,053,000	6,544,000
	$25,898,000	$27,805,000

Expenditures for renewals and betterments which materially increase the estimated useful life or capacity of fixed assets are capitalized, expenditures for repairs and maintenance are charged to income. The cost and accumulated depreciation of fixed assets retired or sold are

removed from the asset and related accumulated depreciation accounts; gains and losses thereon are included in income.

Note 2 — Long-term notes payable and subordinated debentures

Long-term notes payable by subsidiaries, less the portion classified as a current liability, consist of the following:

	March 31, 1971	March 31, 1970
Notes payable to banks bearing interest at 1½% to 2% above the prime rate	$3,460,000	$ 6,422,000
7¼% secured notes payable to insurance companies due 1971-79	1,670,000	1,910,000
7½% subordinated promissory notes due 1973-77	2,500,000	2,500,000
7½% subordinated note payable due 1980	1,000,000	1,000,000
7¾% mortgage payable due 1977	123,000	
4% subordinated note payable due by 1983		203,000
	$8,753,000	$12,035,000

The note agreements with banks require a subsidiary to maintain 20% compensating balances, which are withdrawn in proportion to debt reduction. At March 31, 1971 and 1970, these balances amounted to $1,247,000 and $1,977,000 respectively, of which $563,000 and $728,000 relate to the current portion of the indebtedness. The bank loans are required to be repaid over two to five years. If any equipment remains unleased for a period exceeding 90 days, that portion of the bank loan secured by such equipment is subject to immediate prepayment. Equipment with net book values of $463,000 and $112,000 at March 31, 1971 and 1970 respectively, was not on lease.

The 7¼% secured notes are due $240,000 per year in fiscal 1971 through 1978 with the final payment of $230,000 due in 1979.

Substantially all the data processing equipment and lease rentals thereon (including receivables of $450,000 and $389,000 at March 31, 1971 and 1970) are pledged as collateral under note agreements with the banks and insurance companies.

The 7½% subordinated promissory notes are payable in equal amounts from 1973 through 1977. The notes require maintenance of at least $4,000,000 net worth.

The 7½% subordinated note payable requires annual prepayments of $143,000 commencing July 1974 through July 1979.

The 4% subordinated note due by 1983 requires mandatory prepayments, subject to certain conditions, based on the net income (as defined) of the pipeline operations. Accordingly, at March 31, 1971, $203,000 of the note is payable by July 29, 1971; $262,000 of the note was paid on July 29, 1970.

Subordinated debentures of the company, convertible into common stock, consist of the following:

	March 31, 1971	March 31, 1970
6¼% convertible junior subordinated debentures due 1987	$ 540,000	$ 1,616,000
5½% convertible junior subordinated debentures due 1988	2,325,000	2,325,000
6½% convertible junior subordinated debentures due 1989	11,320,000	11,320,000
	$14,185,000	$15,261,000

The 6¼% convertible junior subordinated debentures were called in February 1971. Of the $618,000 outstanding at March 31, 1971, $540,000 in principal amount was converted into common stock prior to April 12, 1971; the remaining $78,000, which is included in current liabilities, was redeemed.

Few companies can take on pipelining in the North because of the rugged terrain and the massive equipment outlays. Banister is one of the companies that can get the northern jobs done.

The 5½% convertible junior subordinated debentures require annual sinking fund payments of $233,000 from 1979 through 1987. Such payments may be reduced, at the company's option, by the principal amount of any conversions.

The 6½% convertible junior subordinated debentures due 1989 were issued in April 1969. Beginning in 1980, the debentures require annual sinking fund payments sufficient to redeem annually 8⅓% of the principal amount of debentures outstanding on January 31, 1980. Such payments may be reduced, at the company's option, by the principal amount of any conversions after January 31, 1980.

At March 31, 1971, aggregate requirements for the repayment of long-term indebtedness were as follows:

1973	$ 2,480,000
1974	2,136,000
1975	922,000
1976	910,000
1977 and thereafter	15,950,000
Total (excludes $540,000 of debentures converted into common stock)	$22,398,000

Subject to the prior payment of all dividends on, and the making of any mandatory redemptions of, the Company's prior preferred stock and the provisions restricting the payment of dividends contained in the Company's 5½% and 6½% convertible junior subordinate debentures, and the Company's prior preferred stock, the holders of the common stock are entitled to receive such dividends as may be declared by the Board of Directors out of funds legally available therefor. The Company under its 6½% convertible debentures is prohibited from paying cash dividends on the common stock or from purchasing or redeeming such stock if, upon giving effect thereto, the aggregate amount expended for all such purposes subsequent to December 1, 1967 shall exceed 50% of the accumulated consolidated net income of the Company (as defined) earned subsequent to September 30, 1968, plus, only in the case of a purchase, redemption or acquisition, the net proceeds of the sale after December 1, 1967, of stock and of indebtedness of the Company which has been converted into common stock of the Company. Retained earnings of approximately $277,000 are available for the payment of dividends at March 31, 1971.

It should be noted, however, that the Company is a holding company and its ability to pay dividends is substantially dependent upon the receipt of dividends from its subsidiaries. Payment of dividends by the computer leasing subsidiary is restricted by provisions governing its outstanding indebtedness. Agreements with respect to outstanding indebtedness of the Com-

Banister has been active in constructing test facilities in the North to determine effects on permafrost and other ecological factors. This work is being performed for the Northwest Project Study Group at Sans Sault rapids, 65 miles northwest of Norman Wells on the West Bank of the Mackenzie River.

pany's pipeline contracting subsidiaries also contain dividend restrictions.

Note 3 — Deferred charges

Deferred charges comprise principally the unamortized costs related to the issuance of the various notes and debentures. These costs are amortized over the terms of the applicable obligations by either the straight-line or sum-of-the-digits methods.

Note 4 — Excess of cost over net assets at acquisition

Excess of cost over net assets at acquisition resulted from the fiscal 1969 purchase, through subsidiaries, of the Banister pipeline operations. Such amounts are not being amortized since, in the opinion of management, there is no present indication of limited life or diminished value.

During the year, settlement was reached with a customer regarding excess costs incurred in the performance of a major construction contract by a predecessor company. The proceeds of the settlement of $1,500,000, net of related costs of $424,000, have been included as an adjustment to "Excess of cost over net assets at acquisition."

Note 5 — Deferred income taxes

Deferred income taxes relate principally to revenue recognized for book purposes but deferred for tax purposes and the excess of accelerated depreciation claimed for tax purposes over book depreciation. Deferred taxes have been reduced, where applicable, by the investment tax credit ($65,000 in 1971 and $148,000 in 1970). That portion of the resultant deferred income taxes which relates to amounts included in current assets is shown as a current liability.

The amount of loss, investment tax credit and foreign tax credit carry-forwards at March 31, 1971 were as follows:

Cumulative loss carryforwards

Expires year ended March 31,	Tax reporting basis
1972	119,000
1973	343,000
	$462,000

In addition, in connection with a fiscal 1969 acquisition, approximately $1,400,000 of tax loss carryforwards expiring on March 31, 1973, are available to a subsidiary. As the carryforwards are utilized, the resultant tax benefits are recorded as an adjustment to "Excess of cost over net assets at acquisition."

Cumulative investment tax credit carryforwards

Expires year ended March 31,	Financial reporting basis	Tax reporting basis
1974		$103,000
1975	$114,000	220,000
1976	63,000	199,000
1977 and thereafter		83,000
	$177,000	$605,000

Pursuant to the Tax Reform Act of 1969, the expiration of investment credits may be postponed for an additional three years from the dates above.

Cumulative foreign tax credit carryforwards

Expires year ended March 31,	Tax reporting basis
1974	$ 46,000
1975	206,000
1976	203,000
	$455,000

Note 6 — Preferred stock

The convertible prior preferred stock $100 par value, 7½% cumulative series, has preference in liquidation as to its par value and any accrued and unpaid dividends before any distributions are made to common shareholders. The company must redeem 1,500 shares in each of the years 1973 through 1977 at $100 per share plus accumulated dividends.

The company is authorized to issue 20,000 shares of voting preferred stock, $100 par value. None of the shares have been issued.

Note 7 — Changes in common stock

Changes in common stock issued were as follows:

	Shares	Amount
Balance — April 1, 1969, including 61,500 treasury shares	1,968,415	$ 8,416,000
Issued upon conversion of:		
6¼% convertible debentures	100,865	773,000
6½% convertible debentures	342,240	3,511,000
4,500 common shares issued from treasury stock upon exercise of stock options		8,000
Balance — March 31, 1970, including 57,000 treasury shares	2,411,520	12,708,000
Issued upon conversion of 6¼% convertible debentures	124,637	957,000
Exercise of stock options including 4,250 shares issued from treasury stock	47,000	151,000
Balance — March 31, 1971, including 52,750 treasury shares	2,583,157	$13,816,000

Note 8 — Unissued common stock

Of the 2,416,843 shares authorized but unissued at March 31, 1971, 1,771,289 were reserved as follows:

77,219	for issuance on conversion of 6¼% junior subordinated debentures convertible at $8.00 per share.
186,000	for issuance on conversion of 5½% junior subordinated debentures convertible at $12.50 per share, adjustable for dilution.
1,053,070	for issuance on conversion of 6½% junior subordinated debentures convertible at $10.75 per share, adjustable for dilution.
150,000	for issuance on conversion of 7½% prior preferred stock convertible at $5.00 per share, adjustable for dilution.
22,000	for exercise of warrants at $15.00 per share to 1979, adjustable for dilution.
32,250	for exercise of warrants under secured notes agreement exercisable at $5.00 per share to 1978, adjustable for dilution.
250,750	for issuance on exercise of employee stock options.
1,771,289	

Pipelining in the North is essentially a winter job . . . when days are cold and nights are long.

Note 9 — Stock options

The company has four "qualified stock option plans" under which options may be granted to officers and other key employees. The options become exercisable as to 50% of the shares one year after the date of grant and as to the remaining 50% two years after the date of the grant or as prescribed by the stock option committee. All options are exercisable at a price approximately equal to the market value of the company's common stock on the date of grant of such options. All qualified options granted to date expire three to five years after date of grant.

During 1971, the company granted nonqualified stock options to purchase 105,000 shares of common stock to two officers. The options become exercisable in installments of one-third the total number of shares subject to each option in 1971, 1972 and 1973 and expire in 1976. These options are exercisable at a price of approximately 91% of the market value of the company's common stock at the date of grant.

The status of options granted is as follows:

Year ended March 31, 1970

Granted and outstanding	Shares	Option prices: Price range		Option prices: Total
1967	43,750	$ 2.00 to	$ 3.00	$ 91,000
1968	10,000	8.00 to	9.75	84,000
1970	39,000	10.25 to	11.50	409,000
	92,750			
Became exercisable	22,250	2.00 to	3.00	47,000
during year	5,000	8.00 to	9.75	42,000
Exercised during year	4,500	2.00 to	3.00	9,000
Exercisable at March 31, 1970	52,500	2.00 to	9.75	164,000
Terminated during year	750	9.75		7,000

Year ended March 31, 1971

Granted and outstanding	Shares	Option prices: Price range		Option prices: Total
1970	34,375	$10.25 to	$11.50	$356,000
1971	110,000	4.50 to	5.00	548,000
	144,375			
Became exercisable during year	17,187	10.25 to	11.50	178,000
Exercised during year	51,250	2.00 to	8.00	151,000
Exercisable at March 31, 1971	17,187	10.25 to	11.50	178,000
Terminated during year	7,125	9.75 to	11.50	77,000

Note 10 — Earnings per common share

Earnings per common and common equivalent share were computed by dividing net income after preferred dividends by the weighted

average number of common and common equivalent shares outstanding during each year reduced by the number of common shares assumed to have been purchased with the proceeds from the dilutive warrants and options.

Earnings per common share assuming full dilution were determined on the assumption that the preferred stock and the convertible debentures were converted on April 1 of each year (April 15, 1969 for 6½% debentures) and the preferred dividends and interest, net of its tax effect, were added back to net income attributable to common shares.

Earnings per common and common equivalent share would have been $.47 and $.39 per share for the years ended March 31, 1971 and 1970, respectively, if all of the debentures converted through May 7, 1971 had been converted on April 1 of each year (April 15, 1969 for 6½% debentures).

Note 11 — Commitments and contingencies

In connection with the Banister acquisitions in fiscal 1969, the acquiring subsidiaries agreed to issue in July 1972, 4% notes due 1983 in the principal amount of $1,860,000, subject to reduction of such principal amount to the extent that the average respective pretax earnings of the subsidiaries for the three years ended March 31, 1972, are less than such principal amount. If the notes are issued, "Excess of cost over net assets at acquisition" will be increased accordingly. Thus far, earnings have been sufficient to indicate that the aforementioned notes will be issued.

The companies are liable under the usual liability of contractors for completion of contracts and for workmanship guarantees extending for a period of one year from the acceptance of a pipeline by the customer.

When losses are incurred in the performance of construction contracts, it is not unusual to negotiate with customers for additional amounts based on specific factors to which the losses can be ascribed. Operating revenues for the year ended March 31, 1971 include $367,000 additional compensation received on a fiscal 1970 contract.

The company has entered into an option agreement to purchase land for $1,000,000 payable over a period of five years. This land may be developed by a non-affiliated corporation in a joint venture with the company.

The company is one of nine applicants in proceedings before the United States District Court for the District of Colorado to acquire the Northwest Division properties of El Paso Natural Gas Company.

OPINION OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders
Banister Continental Corporation

In our opinion, based on our examinations and the reports mentioned below of other independent accountants, the accompanying consolidated balance sheets, the related statements of consolidated income and retained earnings and the statements of changes in consolidated financial position present fairly the financial position of Banister Continental Corporation and its subsidiaries at March 31, 1971 and 1970, the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of Banister Pipelines Ltd., a consolidated subsidiary of Banister Continental Corporation, which statements were examined by other independent accountants whose reports thereon have been furnished to us.

Independence Mall West
Philadelphia, Pennsylvania
May 7, 1971

Price Waterhouse & Co.
PRICE WATERHOUSE & CO.

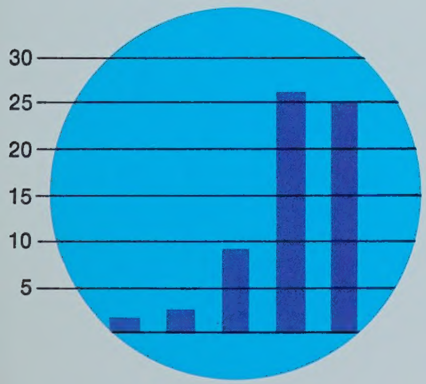
BANISTER CONTINENTAL CORPORATION
FIVE YEAR SUMMARY (Dollars in Thousands)

	Year ended March 31				
	1971	1970	1969	1968	1967
REVENUES*	$25,005	$26,193	$ 9,234	$ 2,701	$ 1,408
EXPENSES					
Operating	14,766	16,357	4,631	595	285
Depreciation	3,623	3,403	1,869	860	439
Interest and amortization of deferred charges	2,239	2,809	1,248	671	260
Other	1,933	1,770	824	339	289
TOTAL EXPENSES	22,561	24,339	8,572	2,465	1,273
INCOME BEFORE TAXES	2,444	1,854	662	236	135
PROVISION FOR TAXES ON INCOME	1,191	849	203	49	18
NET INCOME	$ 1,253	$ 1,005	$ 459	$ 187	$ 117
EARNINGS PER COMMON AND COMMON EQUIVALENT SHARE	$ .49	$ .41	$ .25	$ .14	$ .15
EARNINGS PER COMMON SHARE ASSUMING FULL DILUTION	$ .43	$ .36	$ .23	$ .14	$ .15
AVERAGE NUMBER OF SHARES OUTSTANDING (000)	2,411	2,290	1,614	1,036	771
COMMON SHAREHOLDERS' EQUITY	$17,309	$15,003	$ 9,762	$ 4,458	$ 1,403
PREFERRED DIVIDENDS	$ 56	$ 56	$ 56	$ 44	—

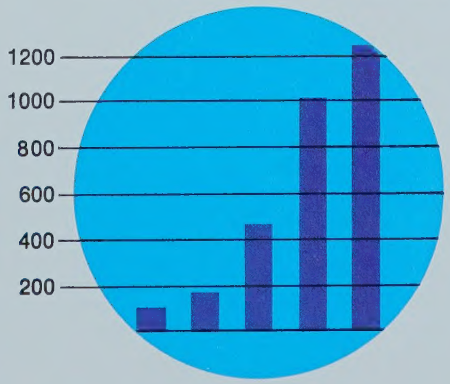
*The January, 1969, acquisition of the assets and business of Banister Construction (1963) Ltd. and the Banister Corporation has been treated as a "purchase" and accordingly the consolidated financial statements include the results of the Banister operations since their acquisition.

NOTE: The notes to the current year's financial statements are an integral part of this summary.

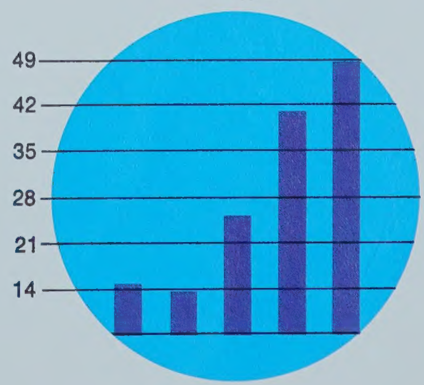
REVENUES
in millions of dollars



NET INCOME
in hundreds of thousands of dollars



EARNINGS PER SHARE
in cents



Two more of the paintings in the Banister-commissioned series on pipelining in the North.

BANISTER CONTINENTAL CORPORATION

Executive Offices: 9001 Bloomington Freeway, Minneapolis, Minnesota 55420 Telephone: (612) 884-9286

Printed in U.S.A. 25M671